



EXAMINER'S REPORT

MAY 2000

MARKETING FINANCE

General Comments

There was a marked increase in the number of candidates attempting four questions on the examination. This has been identified by the examiner on many occasions as one method of increasing the chance of achieving a pass grade. The number of students achieving a pass grade was 80%. A number of housekeeping issues have arisen at this session - :

- a) Rough work should represent back up information only – instead many candidates submitted loose pages which were a second copy of each question attempted.
- b) Answer books should have question numbers *IN THE ORDER ATTEMPTED* marked clearly on the front of the answer book in accordance with instructions on the answer books.
- c) If candidates are leaving a space between parts of questions with a view to additional information being added later, please signal that the question is continuing overleaf – in extreme cases there were cases of students skipping up to two pages without indication that they were attempting further parts of the question later in the exam answer book.
- d) At the other extreme, some candidates continue to answer questions using as little of the answer book as possible by squeezing information in on earlier pages rather than answering in page sequence. This does not enhance the layout of the answers presented.

Question 1

This question was answered reasonably well with many candidates achieving a pass mark. Higher grades were given to candidates displaying a thorough knowledge of the importance of the accountant to a business. This was a question where candidates were expected to put the knowledge gained in the various areas of the syllabus into context.

Question 2

Answers varied a lot on parts a), b), and c). Although debentures and term loans had been examined in the past on many occasions, there were a lot of scrappy answers. Venture capital was confused by many candidates with working capital even though each topic is

dealt with comprehensively in the prescribed text. Higher marks were achieved by candidates conversant with all the main aspects of each of the three topics.

Question 3

The most popular question on the paper with a high standard of accuracy in part(a). The main problems on weaker papers were incorrect formulae e.g. stock turnover, creditor days and, surprisingly, employee costs to sales where a number of candidates used cost of sales. Part (b) was very vague or totally ignored by many candidates even though there were a substantial number of marks going for this part. Better answers not only observed the differences in ratios between years and also with the interfirm comparison but also gave possible explanations for the differences.

Question 4

This was a fairly popular question although the standard of answer varied quite considerably. Many candidates scored well on parts a) and b) but very few did well on c) and d). The main problems were:

- (i) Lack of understanding of the term C/S ratio
- (ii) Identification of the specific fixed costs associated with the special order
- (iii) Candidates dealing with all products together and not individually e.g. taking one selling price comprising a total of the four selling prices and multiplying by total demand to get total sales.

Question 5

This was well answered generally although there were some common difficulties :

- (i) Candidates did not recognise the term cost of capital and consequently discounted at either 5% (the first rate given) or a rate selected randomly from the table. Some marks were given where the method was correct.
- (ii) Cost of capital was taken as working capital to the projects suggesting candidates rote learning of topic areas .
- (iii) IRR formula is not known by many candidates.
- (iv) Residual value was either ignored, not discounted at the end of projects or in some cases put in at the beginning of the project.

Question 6

Part (a) examining the variances was well answered with many candidates getting high marks. Some attempts were made to calculate fixed overhead variances even though there were no fixed overheads in the question. This is further evidence of rote learning rather than studying to understand finance. Part (b) answers were generally very weak.

Question 7

This was a very popular question and many students scored well. The main problems arose with phasing in receipts and payments. There was a particular problem with candidates including depreciation in the fixed cost payments. Layout is a major problem with this question - many cash budgets covered the period June to December even though three months August to October were specifically required in the question. In part (b), many irrelevant comments were made rather than the recommendations required in the question. Even basic comments such as investing cash surpluses or negotiating increased overdraft requirements were not made. This part was marked in the context of the cash budget calculated by each candidate as opposed to a standard answer prepared by the examiner.